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*Paul Matson*  
Director

## **MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE**

**HELD ON**  
**Tuesday, August 9, 2016**  
**10:30 a.m., Arizona Time**

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:30 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Jeff Tyne, Chair  
Mr. Clark Partridge, Vice Chair  
Dr. Richard Jacob

A quorum of the Committee was present for the purpose of conducting business.

### **2. Approval of the Minutes of the May 27, 2016 Public Meeting of the OAC**

**Motion:** Dr. Richard Jacob moved to approve the minutes of the May 27, 2016, public meeting of the OAC. Mr. Clark Partridge seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

### **3. Presentation, Discussion, and Appropriate Action Regarding an ASRS Risk Assessment of Agency Budget Administration and Human Resources Development**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the topic and turned the presentation over to Ms. Lisa King, Policy Analyst.

Ms. King provided a brief overview of the process and the methodology used in the assessment. Ms. King stated the ASRS bases risk management activities on the framework recommended by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and has been doing so since 2007. COSO is considered to be the industry authority in the areas of internal control, enterprise risk management, and fraud deterrence. Ms. King further stated the ASRS believes its risk management activities have all the components in place and operating that COSO says should be in place to have an effective internal control environment. Before turning the presentation over to Ms. Martha Rozen, Chief of Administrative Services, Ms. King took a moment to recognize Ms. Rozen and her team for the time and effort they put into completing this assessment and offered to respond to any questions from the Committee.

Prior to her presentation, Ms. Rozen introduced the team of Program Managers responsible for the work on this assessment. In addition, Ms. Rozen introduced two Budget Analysts from the Joint Legislative Budget Committee (JLBC) and thanked them for joining the meeting. Ms. Rozen opened the discussion

by stating although today's presentation only encompasses Budget Administration and Human Resources, Strategic Goal #4 encompasses other areas as well. Ms. Rozen emphasized the agency feels the risks identified in the report are manageable. Ms. Rozen stated many staff are cross-trained, have high degrees of expertise, in addition, the ASRS has strong working relationships with the JLBC and the Office of Strategic Planning and Budget (OSPB), the General Accounting Office, and the Arizona Department of Administration Human Resources Department, with oversight by Mr. Paul Matson, Director and Mr. Anthony Guarino, in addition to monthly reporting to the ASRS Board of Trustees. Ms. Rozen further stated all the work performed in these two areas is reviewed by a two to three person team. Ms. Rozen offered to respond to questions from the Committee regarding the assessment.

Ms. Rozen, Mr. Guarino, Mr. Matson and Ms. King, responded to questions from the Committee. Dr. Richard Jacob made a request for more statistical data when assessments are presented.

#### **4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Compensation Strategies and Staffing Conditions for Fiscal Years 2016 and 2017**

Mr. Anthony Guarino introduce the topic by stating the intention of this presentation is to highlight actions taken in the areas of compensation and staffing to assist in demonstrating what the agency has done to mitigate risk. Mr. Guarino turned the presentation over to Ms. Rozen. Ms. Rozen concurred with Mr. Guarino's comments and hopes the information included in this presentation will answer some of Dr. Jacob's questions regarding the previous risk assessment.

Ms. Rozen stated this topic addresses critical activities that are core to the ASRS' success as an employer. The ASRS believes engaged employees contribute to outstanding performance and customer service. Ms. Rozen provided examples of activities/programs made available to employees that are outside of compensation such as, the tuition assistance program, professional development program, job shadowing, Work Environment Program activities, etc. Mr. Clark Partridge commended staff on the efforts to engage employees.

Ms. Tracy Darmer, Human Resources Manager, addressed the Committee highlighting the following:

- The ASRS survey results were up from last year.
- There was a decrease from last year's survey regarding the Professional Development Program. Communication and advertisement will increase.
- Workforce Planning is a new initiative to ensure a successful transition of personnel into key positions when they become vacant.
- Turnover in the Technology Services Division has decreased. However, recruitment is still a lengthy process, specifically with IT security positions.
- The hiring freeze continues, which causes a delay in the recruitment process.

Mr. Matson, Ms. Darmer, Ms. Rozen, Mr. Guarino, Ms. Sara Orozco, Strategic Planning and Analysis Manager, and Ms. Donna McNally, Training Manager, responded to questions from the Committee.

Dr. Richard Jacob commended the agency on the atmosphere and working conditions it provides and the encouragement given to the employees. He looks forward to seeing the PRIDE awards on the Board agenda's recognizing staff for their accomplishments. Dr. Jacob further stated if he were looking for employment, he couldn't think of a better place to work than the ASRS.

**5. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget Related Topics Including:**

- a. Presentation of the ASRS Appropriated Budget and the ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017.**
- b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request and the ASRS Administrative and Investment Spending Plan for FY 2018.**

Mr. Anthony Guarino introduced this topic by stating the agency tries to construct a budget and spending plans that are fiscally conservative but also leaves some flexibility and the capacity to meet goals and objectives. Mr. Guarino turned the presentation over to Ms. Martha Rozen and Mr. Russ Levine, Budget and Procurement Manager.

Ms. Rozen provided an outline of Mr. Levine's upcoming presentation and the need for Committee action with regard to the budget and spending plans for FY 2018.

Mr. Levine reviewed the following with the Committee:

- FY 2016 accomplishments
  - Continued technology modernizations and re-engineering of processes, allowing resources to be reallocated
  - Continued with software development enhancements
  - Finished the year under budget
- FY 2017 expected accomplishments
  - Continue with the Oracle Modernization project
  - Continue member messaging
  - Continue benefit disbursement development
  - Start benefits accounting
- FY 2018 budget request
  - Decreasing appropriated budget from the efficiencies the agency has gained resources
  - Decreased funding for Long Term Disability (LTD) plan administration due to cost savings

**Motion:** Dr. Richard Jacob moved to accept and forward to the ASRS Board an appropriated budget request for FY 2018 in the amount of \$24,884,200; an administrative spending plan of \$31,659,200 within a total spending plan of \$238,923,200 including the forthcoming private markets performance incentive and other fees. Mr. Clark Partridge seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Internal Audit Self-Assessment**

Mr. Bernard Glick, Chief Internal Auditor, provided a summary of the Internal Audit Self-Assessment with the Committee and responded to questions.

**7. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update**

Mr. Bernard Glick provided a summary of the Internal Audit Quarterly Audit report with the Committee. Mr. Glick advised the Committee he is anticipating filling the vacant auditor position by the end of the month.

## **8. Review of Recently Conducted Audits**

Mr. Bernard Glick reviewed the following audits conducted by the Internal Audit Division (IAD).

- **City of Nogales – Employer Audit**

The IAD had no findings from the City of Nogales audit.

- **Mohave Community College – Employer Audit**

The IAD had five findings from the Mohave Community College audit. The employer agreed with the findings and IAD's recommendations.

- **Sacaton Elementary School District – Employer Audit**

The IAD had six findings from the Sacaton Elementary School District audit. The employer agreed with the findings and IAD's recommendations.

- **Buckeye Elementary School District – Employer Audit**

The IAD had two findings from the Buckeye Elementary School District audit. The employer agreed with the findings and IAD's recommendations.

## **9. Presentation, Discussion, and Appropriate Action Regarding ASRS Retiree Health Insurance Including:**

- a. **Philosophy and Goals**

- b. **Cost Allocation and Pricing Methodology Options**

- c. **Retrospective Rate Agreement and Distribution Methodology Options**

Mr. Paul Matson opened the discussion by stating his expectation for this presentation was to receive input regarding the draft documents provided to the Committee by staff and was not expecting the Committee to make a motion today. The primary goal in drafting these documents is to focus on values and how to manage these programs and allocate risks and resources. Mr. Matson reviewed the following three components:

- a. Philosophy and Goals – The current philosophy for health insurance is combined with LTD and supplemental defined contribution programs. Mr. Matson's suggestion is to extract health insurance from the current philosophy and create its own and update the terms used, and provided the following suggestions:
  - i. Change affordable to cost competitive because the agency does not have control over the costs in the market place.
  - ii. Keep accessible but clarify the definition as it pertains to the provider network.
  - iii. Add meaningful and provide definition as it pertains to benefit coverage or provide a different term that conveys the same thing.
  - iv. Change efficiently run to efficient and clarify the definition as it pertains to such things as initial enrollment and ongoing in-plan navigation.
- b. Cost Allocation and Pricing Methodology Options – Mr. Matson reviewed the options considered and discussed the pros and cons of each option. Dr. Jacob requested a case study be brought to the Committee containing a reasonable sampling of the population of both active and retired members, using the optional scenarios considered, prior to the Committee making recommendations.
- c. Retrospective Rate Agreement and Distribution Methodology Options – Mr. Matson reviewed the options considered and discussed the pros and cons of each option.

Overall, the Committee feels staff is moving in the right direction. The Committee provided suggested modifications and guidance.

Dr. Richard Jacob left the meeting at 12:15 p.m.

## **10. Request for Future Agenda Items**

Continue discussion regarding ASRS Health Insurance including:

- Philosophy and Goals
- Cost Allocation and Pricing Methodology Options
- Retrospective Rate Agreement and Distribution Methodology Options

For planning purposes, Mr. Guarino asked the Committee if they had a preference regarding the health insurance topic being discussed at the October 11, 2016, OAC meeting or if an adhoc meeting needed to be scheduled to discuss the topic. The Committee's direction was to schedule an adhoc meeting only if the October agenda was full.

## **11. Call to the Public**

There were no members of the public in Phoenix or Tucson.

## **12. Adjournment of the OAC**

**Motion:** Mr. Clark Partridge moved to adjourn the meeting at 12:30 p.m. Mr. Jeff Tyne seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie Alexander  
Committee Administrator

Signed Copy on File

Anthony Guarino  
Deputy Director and Chief Operations Officer